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Submission to the Government Of Alberta
With Regard to Public Ownership of 1
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# SUBMISSION

TO

# THE GOVERNMENT OF ALBERTA

WITH REGARD TO

# PUBLIC OWNERSHIP OF ELECTRIC POWER

BY

THE FARMERS' UNION OF ALBERTA

&

ALBERTA UNION OF RURAL ELECTRIFICATION ASSOCIATIONS

January 19, 1970

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Mr. Premier and Members of the Cabinet:

Public ownership of electric power has been the policy of the Farmers' Union of Alberta ever since the organization was established over 20 years ago. In December 1968 this policy was again re-affirmed as follows: "We reiterate our stand that public ownership of electric power is in the best interests of the people of Alberta and we will continue to work toward that end".

Arising from this policy, the following resolution was adopted by the 1968 convention, "Resolved that the FUA policy of public ownership of power should be actively promoted through research and publicity, and presentation to the Provincial Government urging its adoption".

We have seen Governments in other provinces across Canada gradually take over the ownership and operation of private power companies. Alberta is the only province West of New Brunswick in which the government has allowed private ownership of electric power to remain in spite of the disadvantages which occur. Other governments have realized the benefits of public ownership and have passed them on to the public.

The Northwest Territories has also had public ownership of power for some time. The fate of private power in the Yukon however is in serious question. There is a growing conviction among senior federal officials in Ottawa that directing future economic growth in the north depends on control of power. If Ottawa decides to nationalize power in the Yukon it would mean basically the purchase or takeover of Yukon Electrical Co., a subsidiary of Canadian Utilities Ltd., which in turn is owned by International Utilities Corporation.

While the federal government and many provincial governments have promoted economic development by providing electric power at cost, many industries and consumers of electricity in the province of Alberta pay more than necessary. Proof of this statement is found in the fact that the three private power companies in Alberta continue to show high profits.

## *The Monopoly Agreement*

The distribution and sale of electric power is by nature a monopoly industry. It is completely unrealistic to believe that there is competition because of the existence of three private enterprise producers in the province. The opposite is true. Each has a market area and if more than one company tried to serve an area, competing lines would merely add to the cost of distribution. Competition only exists with other sources of energy if they are available.

The government has accepted this fact and has granted franchises to different suppliers. Each franchise grants the holding company a monopoly in the given area. However, where a monoply exists in an industry as vital to the economy as electric power, there tends to be a conflict between the exercise of the private profit motive and the public interest.

In order to protect the public interest the utility must be owned directly by the public, or private firms must be regulated by a public authority. Alberta has so far used the latter system which has not been very effective. The cost of power continues to be greater than necessary while various problems and disagreements have arisen necessitating the recent investigation by the Burton Commission. This Commission may also suggest public power is one solution to the problem.

Regulation is provided by the Alberta Power Commission, a body established by the province under the Power Commission Act, to represent the interests of the people of Alberta as consumers of electric power. The duty of the Commission is to regulate and supervise matters relating to power and its distribution.

The Public Utilities Board on the other hand is both arbiter and representative of the consumers in setting power rates in the province. The Board has been quite liberal with private companies, by allowing them high power rates and high power company profits.

It has allowed Canadian Utilities Limited an increase in profits by allowing them a return on investment of 8 1/2 per cent. This means the power company is entitled to a revenue of $3,034,190 or 17 per cent more in 1970 than it would have earned under the previous rate schedule. It appears that the Public Utilities Board is more concerned about private interests than it is with the public at large.

Problems with regulations, rates and franchises have arisen recently with private power companies. Because franchises extended to these companies by municipalities have a termination date it is possible that the Power Commission would allow the companies to take over other market areas near their franchise borders. This happened in Edmonton when the city took over distribution in Jasper Place from Calgary Power Ltd. This take over by a publicly owned utility has frightened private utilities. If the Alberta Power Commission Act is not revised to control public utilities also, the private companies fear that soon they will be serving only rural areas. As a result, the Act is being revised and studied by the Burton Commission. The private utility companies would like to see the Alberta Power Commission and the Public Utilities Board combined to form a central regulating authority to control extension of power systems and rates.

We suggest nationalization would remove a number of problems relative to power generation and distribution, and would provide cheaper power at the same time. The present duplication of effort by the producer, the commission and the Board would all be replaced by a single controlling body which would directly control production and distribution, rather than regulate it indirectly. Another government body, which we will discuss in more detail later, involved in tax rebates would not be necessary, since there would be no accumulation of earnings which would later have to be rebated.

## *The Publicly Owned Utilities in Alberta*

In Alberta we have three municipalities providing electrical service. The advantage of publicly owned systems is that profits earned by the system help reduce the amount of funds required by the municipality to meet its operating expenditures. The Edmonton Electrical Distribution System, the largest publicly owned power system in Alberta, made a net profit of over $3.1 million from the City-owned utility in 1967 and $2.6 million in 1968. The combined contribution to general revenue by all the utilities departments for the city was equivalent to nearly 17 mills on the 1967 taxable assessment and 18 mills on the 1968 assessment.[1] While it may be argued that these savings come from the taxpayers pockets, they are savings that would be lost if these services were provided by privately owned utilities.

## *The Privately Owned Utilities in Alberta*

The three privately owned electric power companies, Calgary Power, Canadian Utilities, and Northland Utilities are in part conglomerates of other companies.

Canadian Utilities and Northland Utilities are both subsidiaries of International Utilities Corporation, therefore shareholders of the parent company (not necessarily residents of Alberta) reap the profits.

Canadian Utilities has three subsidiaries and is affiliated with Northland Utilities which has two subsidiaries; one in B.C. and one in Saskatchewan. Calgary Power has three subsidiaries, and the president of Calgary Power is also president of at least two other large Eastern Utility companies.

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[1] "Financial Statements and Reports", City of Edmonton, 1967 and 1968

If we had one publicly owned power company to replace the three privately owned companies we would do away with the triplication of head offices, public relations staff and many other facilities.

## *Power Costs*

Edmonton, Medicine Hat and Lethbridge generate and distribute their own electric power. Calgary, Red Deer, Ponoka and Cardston own their own distribution system similar to the REA's and as such are supposed to obtain electric power at wholesale prices. In the remaining urban and rural areas private power companies generate and distribute electric power to the consumers at various retail prices.

Farmers own 44,705 miles of power lines or 62 per cent of the total 72,149 miles of line in the province.[1] It is estimated that their total investment is about $63 million.[2] The cities of Calgary and Red Deer alone have capital assets of over $35 million in electric utilities.

Therefore, in comparing cost of electric power in Alberta to other provinces we must keep in mind, (1) that close to 27 percent of the power generated in Alberta is by public municipally owned systems; (2) that over $100 million worth of electrical distribution systems is owned by the consumers; (3) that many urban and rural consumers are paying "reserves" plus operating charges in addition to a K.W.H. charge and; (4) that the power rates in Alberta are both wholesale and retail.

As a result, the average cost shown in Table 1 for Alberta cannot be compared to other provinces without first considering the items above, noting that public rates, and private wholesale and retail rates are all averaged together. Considering the above we would expect Alberta rates would be considerably less than in Canada on the average but they are not.

Because many consumers have provided their own distribution system in Alberta and are getting power at cost, other provinces must be subsidizing their consumers or have more efficient systems to allow such low rates on the average.

TABLE 1

COSTS IN CENTS PER K.W.H. DOMESTIC AND FARM CUSTOMERS

| Year | Alberta | Saskatchewan | Manitoba | Canada |
|---|---|---|---|---|
| 1957 | 2.44 | 3.11 | 1.13 | 1.62 |
| 1959 | 2.28 | 3.01 | 1.15 | 1.61 |
| 1961 | 2.17 | 2.93 | 1.15 | 1.58 |
| 1963 | 2.05 | 2.76 | 1.16 | 1.52 |
| 1965 | 1.92 | 2.35 | 1.15 | 1.43 |
| 1967 | 1.84 | 2.22 | 1.17 | 1.45 |
| 1968 (preliminary) | 1.79 | 2.18 | 1.26 | 1.48 |

Source: "Alberta Power Commission", 1968, P. 7.

In spite of the fact that Alberta is considered the richest province energy wise, with vast power, oil and gas reserves, and some 50 billion tons of mineable coal, (more than one-half of all the mineable coal in Canada) electric energy charges indicated above are higher in Alberta than the Canadian average by 21% in 1968. Saskatchewan rates are higher than that of Alberta because of higher generation costs.

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[1] "Alberta Power Commission", 1968 Annual Report, P. 9.

[2] Ibid P. 42.

## *Cost to Alberta Farmers*

Farmers are supposed to receive power at reduced rates because they own their distribution systems. The farmer in effect owns a share in the Rural Electrification Association (R.E.A.).

The farmer pays three items on his billing, energy used, Operation and Maintenance and a Deposit Reserve. If requested by the R.E.A., an extra fee can be added to collect money for other expenses. In addition he has to pay for the supply system at the initial stage which averages about $1000 per customer.

Prior to December, 17, 1969 a three step rate, with separate operating and maintenance and deposit reserves was used:

TABLE II

SCHEDULE OF POWER RATES, ALBERTA

| Transformer size | 3 KVA | 5 KVA | 7 1/2 KVA | 10 KVA | 15 KVA |
|---|---|---|---|---|---|
| Breaker amps | 25/41 | 35/50 | 50/75 | 75/100 | 100/150 |
| KWH's @ 2¢ | 350 | 400 | 600 | 800 | 1200 |
| KWH's @ 1 1/2¢ | 310 | 400 | 400 | 400 | 400 |
| All excess at 1 1/4¢ | | | | | |
| Since Dec. 17, 1969 the proposed effective rates are: | | | | | |
| KWH's @ 2.2¢ | 600 | 700 | 1000 | 1,500 | 2,000 |
| All excess at 1.57¢ | | | | | |

The overall affect will be an increase in energy charge up to about 28 per cent. The average increase based on the average farm consumption will be about 20.5 per cent.

According to a study on electric power in Western Canada by the late G. B. Mead, there are many factors to consider in comparing power costs between provinces or between farmers who are members of the REA and those who are not.

Because REA farmers own their distribution systems they receive lower energy rates but according to the late Mr. Mead's report REA members end up paying about 0.2¢ per K.W.H. more than the company customer if we consider the opportunity cost of the farmers investment at 8% interest, the monthly charge is $6.66.

He also showed that on the average 600 K.W.H.'s would cost a farmer $9.92 in Manitoba, $17.58 in Saskatchewan and $20.41 in Alberta (1966). Now if we adjust Alberta figures to 1970 rates we have a charge of $22.86. This is probably twice the recent Manitoba charge and 30 per cent more than Saskatchewan is charging for electric energy.

## *Conservation and Power Generation*

Alberta is rich in natural resources. The development of natural resources must not be simply to utilize but also to maintain and to conserve them. This fact has been taken into account by the province under "Prairie Rivers Improvement, Management and Evaluation". They assess our water potential for storage diversion, utilization and conservation.

The construction of dams and the generation of hydro are complementary undertakings. Developments for hydro and water conservation by separate parties invariably have repercussions because of conflicting interests.

The Brazeau and Bighorn dams are examples where electric power generation is in private hands while water conservation (water storage and pollution control) is being looked after financially by the provincial government. The direct cost to the government is well over $22 million for both dams.[1] The cost of hydro installations and dam construction could be greatly reduced if profit interests were removed. A public power authority would be in a far better position to bear in mind all aspects of the public interest and at the same time provide electric power at cost.

The cost of such projects would be much more equitable under a public power authority. At present the government's costs of building dams are borne by all Alberta citizens both directly and indirectly regardless of water conservation benefits. However, those who use more power frequently utilize or pollute more water and should therefore be charged accordingly.

In other words, industry is a major consumer of both water and power, and in many cases is also a major contributor of pollution. Under public ownership such users would also bear their proportionate share of the cost of these items.

## *Rural Electrification Association*

Public ownership of power would enable the Rural Electrification Association to achieve economies of scale by having one large system.

Rural people object to building reserves for the purpose of maintaining and rebuilding the electrical distribution system. There is a strong feeling among farmers that building the power lines once was enough. They should not have to replace it for future users.

The government would not experience any financial burden by having to refund the money in reserves because it is just being held by companies today. The present system could be rebuilt as needed out of general revenue and all users of power would be treated more equitably.

At the present time the revenue for operating and maintenance is just equal to or a little less than expenditures. This means farmers will have to contribute a larger amount probably next year.

Funds in the deposit reserve account however are still growing (Table 111). The change in reserves between year ending 1967 and year ending 1968 is an increase of about $1.2 million dollars.

TABLE 111

RESERVES, YEAR ENDING 1967 AND 1968

| | Farm[a] Electric | Canadian Utilities | Northland Utilities | Total |
|---|---|---|---|---|
| | (thousands of dollars) | | | |
| Carry over from 1967 | 12,767 | 4,021 | 448 | 17,236 |
| Additions 1968 (interest and fees) | 1,352 | 964 | 170 | 2,486 |
| Refund expense to REA'S | 156 | | | 156 |
| Credits from REA'S | | 25 | 7 | 32 |
| Expenditures | 377 | 629 | 123 | 1,129 |
| Carry over from 1968 | 13,585 | 4,380 | 503 | 18,469 |

[a] Year ending October

Source: Alberta Power Commission

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[1] Opportunity cost on interest-free loan to Calgary Power amounts to over $15 million for the Brazeau Dam. There is also about $7 million in Gov't. costs for t Bighorn Dam. The $100,000 that Calgary Power Ltd. will pay for water rights on th Bighorn will yield the government some 1.4% return on their $7 million investment.

## *Economics for Public Ownership*

With the vast amount of available energy resources in Alberta which can be converted into very low cost power, more and more industries are likely to establish themselves in the province. Furthermore, the almost unlimited supply gives reasonable assurance that cheap power will be available for a long time maintaining stable, if not cheaper, power rates.

In order to attract industry to the province and promote economic growth and development of the various sectors of the provincial economy, it is of utmost importance that cheap power be made available. This can only be done through public ownership.

## *Utility Companies Rebate*

Private utility companies must pay income taxes. Public utility companies do not. Public utilities can therefore, provide power at lower rates. Private utility companies claimed this was not fair and provided temptation for publicly owned power to take-over privately owned utilities. As a result, the Federal Government decided to rebate about $20.8 million under the "Public Utilities Income Tax Transfer Act", of which $7.4 million will go to Alberta in 1969 for the 1966 income tax year. The fact that Alberta will receive over 1/3 of the Federal Government's refund is an indication of the success and extent other provinces have in converting their utility companies to public ownership.

The Alberta Government will rebate its share of income taxes to the private utility companies also under "The Utility Companies Income Tax Rebates Act". The Federal Government's refund (95% of Federal Tax less Old Age Security) plus the provincial tax refund in turn will be rebated to the consumers of power. The amount each customer receives will be based as a percentage of consumption expenditures. The percentage figure is based on the utility companies tax refund as a percentage of gross sales. Farmers who are supposed to obtain power at cost or wholesale prices will receive a rebate based on the same formula as though the power was obtained at retail prices. We estimate that the total power rebate will be about $4.3 million in 1969 (Table 4).

TABLE 4

ESTIMATED TAX REBATES TO ELECTRIC UTILITY COMPANIES IN ALBERTA,

1966, 1967 and 1968.

| Item | 1966 | 1967 | 1968 |
|---|---|---|---|
| | | ($ '000) | |
| Taxes paid[a] | 5,345 | 5,650 | 5,515 |
| Rebate[b] | 4,340 | 4,640 | 4,520 |

[a] Income taxes paid by three electric companies.

[b] 1966 rebate estimated by Treasury Department of Alberta. 1967 and 1968 are estimates based on the 1966 tax rebate taxes paid ratio.

## *Savings to the Province if Publicly Owned*

The net income before taxes earned by the three privately owned utility companies was $22.7 million in 1968 (Table 3). If the province was to take over these three companies there is no reason why public ownership could not earn even larger net returns by reducing operating expenses through operating one company instead of three. Additional savings could be made in water conservation and hydro installations if they were both combined to meet the best interests of the people in the province.

The minimum savings therefore, to the province under public ownership is $22.7 million based on 1968 returns less income taxes which the province receives or will receive in later years and the cost of borrowing the necessary capital to take over operation of the utility.

Situation 1

Assume that the three private companies are purchased at their net book value and the cost of borrowing is 7 1/2 per cent. The net book value or shareholders' investment is $136,544,000 in 1968. Let us assume that the government took over and that net income was equal to that of 1968.

| | |
|---|---|
| Net income before income taxes | $22,744,000 |
| Less cost of borrowing $136,544,000 at 7 1/2% | 10,240,000 |
| Difference | 12,504,000 |
| Less taxes rebated to province | 4,340,000[a] |
| Net savings to province | $ 8,164,000 |

Situation 2

It is more likely that the three private companies can be taken over by purchasing all the common stock and exchanging outstanding preferred stock for 25 year government bonds. This would be similar to the take-over of B.C. Electric Company by the B.C. government in 1961.[1] The B.C. government paid $197 million or 84 per cent of $236 million based on an outside appraisal of the company's assets.

The market value of all common stock issued by the three companies in Alberta was about $177.7 million based on the average of the high and low price quotations for the first 6 months of 1969. There is no reason why the shares could not be purchased at about 90% of market value or for $160.0 million.

| | |
|---|---|
| Total net income before income taxes | $22,744,000 |
| Less cost to purchase common stock at 7 1/2% | 12,000,000 |
| Less dividends paid on preferred shares | 1,943,000 |
| Less tax rebate to utility companies | 4,340,000 |
| Net savings to province | 4,461,000 |

The annual net savings to the province is estimated at close to $4.5 million. The savings largely depend on the interest rate required to issue government bonds to replace the common stock of the utility companies.

Take-over of private utilities would have been inexpensive had it been done when the cost of borrowing was much less. However, a net saving to the government of nearly $4.5 million can still be made even if the government had to issue government-backed bonds at 7 1/2 per cent. Adding to this figure the additional savings which accrue in:

(1) utility income tax rebate distribution i.e. 5% is lost to the Federal Government, some is lost in Provincial Government administration and the balance is lost in expenses incurred by private utility companies in distributing the funds (if the Federal Government requires 5% of the tax to cover costs it would be quite conservative to add another 5% for Provincial and Private Utilities or 10% of $3.5 million as costs).

(2) dual purpose dam construction (power and water conservation). All interests would accrue to one party (efficiency in decision making is difficult to measure in dollar terms).

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[a] See Table 4.

[1] See method of B.C. takeover in appendix of this report.

(3) development of water conservation when and where it is necessary by the government.

(4) wildlife conservation through well planned multi-purpose projects.

(5) preventing the duplication of research and development, administration and planning, and removing the need for the government's roll in regulating power activities or acting as an arbitrator in setting rates.

(6) the future gains accruing from expansion of capacity to satisfy growing demands would go to the amortization of bonds reducing the debt burden of the province. At present such gains accrue to stockholders in the form of increases in the market value of stocks.

(7) Additional profits paid to the three power companies could add up to $6 million.[1]

It is difficult to ascertain the actual value of the additional savings mentioned above but along with the $4.5 million operational saving mentioned previously the total would probably be close to $11 million.

While this may not be a startling figure it could well be $20 million a decade from now and at this rate it wouldn't take too long to self liquidate the entire government investment.

## *Is the Takeover Too Big for the Government?*

The assets of the British Columbia Electric Company Limited taken over by the British Columbia Hydro and Power Authority were nearly twice as great as those of Alberta's three privately owned utility companies.[2] Today the combined assets of the British Columbia Hydro and Power Authority is well over $2 billion. The B.C. Government did not have to put up any public funds to finance these large investments. Individual citizens, business and others continue to accept bonds backed by the B.C. government. During the 60's the B.C. government did not have to spend so much as one dollar of government revenues on debit charges.

The B.C. government has gone ahead with projects such as the Peace River project costing $519 million and the Columbia River Storage Projects (Duncan, Arrow, and Mica) costing about $300 million. Recently, there has been some talk about expropriating B.C. Telephones which would cost the government about $1 billion. Such projects in B.C. make the Brazeau and Bighorn projects in Alberta look very small in comparison.

The B.C. government's net general revenue is about 25 per cent greater than Alberta's.[3] Alberta is really in a much better financial position than is B.C. having to go to the capital market for the first time in 1968. B.C. on the other hand has outstanding investments of close to $2 billion which appear to be self-liquidating. Alberta should follow B.C.'s example where long term capital investments have to be made. Expenditures which benefit future citizens should not be charged to those of today.

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[1] The gross increase granted to Canadian Utilities limited is $3,034,190 (see Exhibit D in appendix). Northland Utilities and Calgary Power may also be granted a gross increase of approximately $9 million. Converting these figures to after tax profits the $12 million gross will yield $6 million net. (Canadian Utilities received $1,517,095 net or 24% more net revenue than they would have received before the rate increase).

[2] British Columbia Electric Company Limited assets at March 29, 1962 were $731.9 million compared to $392.0 for the three private utility companies in Alberta ending Dec. 31, 1968.

[3] Net General Revenue (estimated) Alberta $601.7 million and B.C. $755.4 million for fiscal year ending March 31, 1969. D.B.S. Daily, Dec. 6, 1968, P. 3.

## Conclusion

It is quite apparent that the Provincial Government should have taken over the generation and distribution of electric power a long time ago. It could have been done when money was available at 5 per cent or less and costs were lower.

However, it is still good business for Alberta to own and operate her own power system. Even at today's cost it can be taken over and operated as a self-liquidating asset at no cost to taxpayers. It only requires men in authority with the vision and courage to take action. Every year's delay means a loss of some millions of dollars to both consumers and the government.

Summarizing the reasons for public ownership, we conclude:

1. Alberta is the only province west of New Brunswick which still has private power.
2. The Private distribution system is by nature a monopoly industry which in turn does not provide power at cost.
3. The present method of protecting the public interest by regulation rather than by public ownership has not been effective.
4. Power costs in Alberta are higher than it is on the average for Canada.
5. Conservation and power generation are complementary undertakings and should not be developed separately by conflicting interests.
6. The provincial government has incurred greater costs than necessary in providing private power companies with dam construction, etc.
7. Direct cash savings to the public or government of some $11 million could be made by having a public power authority take over private power in the first year of operation.
8. If we had public ownership additional savings in Rural Electrification operations and costly reserves would help those who are members of local REA's.
9. The takeover of Alberta's three privately owned utility companies is not near as great a project which other provinces have undertaken.

In conclusion we wish to invite your support for take-over of the three privately owned electric power companies in Alberta.

All of which is respectfully submitted
on behalf of:

Farmers' Union of Alberta
Alberta Union of Rural Electrification
Associations

# APPENDIX
## Exhibit A
### TABLE 5

### PRIVATE ELECTRIC POWER INVESTMENT AND INCOME, ALBERTA, 1959-1963.

| Utility Company | Year | Shareholder Investment | Net Income | Income Taxes Charged Against Income | Operating Income Before Income Tax |
|---|---|---|---|---|---|
| | | $ 000 | $ 000 | $ 000 | $ 000 |
| Calgary Power Ltd. | 1968 | 98,834 | 9,950 | 7,350 | 17,300 |
| | 67 | 94,429 | 9,724 | 6,660 | 16,384 a (See |
| | 66 | 89,885 | 9,931 | 5,210 | 15,141 Notes |
| | 65 | 62,314 | 9,726 | 6,270 | 15,996 |
| | 64 | 58,364 | 9,339 | 5,730 | 15,069 |
| | 63 | 54,784 | 7,276 | 5,940 | 13,216 a |
| | 62 | 51,536 | 8,763 | 6,470 | 15,233 |
| | 61 | 48,045 | 7,527 | 6,299 | 13,826 |
| | 60 | 43,701 | 6,849 | 5,761 | 12,610 |
| | 1959 | 40,090 | 5,877 | 5,165 | 11,042 |
| Canadian Utilities Ltd. | 1968 | 30,681 | 3,830 | 670 | 4,500 |
| | 67 | 28,922 | 2,965 | 1,047 | 4,012 b |
| | 66 | 22,889 | 2,450 | 1,300 | 3,750 |
| | 65 | 22,214 | 2,254 | 1,333 | 3,587 |
| | 64 | 21,187 | 2,241 | 1,511 | 3,752 |
| | 63 | 20,316 | 2,116 | 1,345 | 3,461 |
| | 62 | 19,360 | 1,991 | 1,360 | 3,351 |
| | 61 | 18,564 | 1,728 | 1,046 | 2,774 |
| | 60 | 13,719 | 1,491 | 928 | 2,419 |
| | 1959 | 13,283 | 1,436 | 796 | 2,232 |
| Northland Utilities Ltd. | 1968 | 7,029 | 775 | 169 | 944 |
| | 67 | 6,738 | 795 | 390 | 1,185 |
| | 66 | 6,389 | 647 | 422 | 1,069 |
| | 65 | 6,251 | 645 | 311 | 956 |
| | 64 | 5,281 | 641 | 429 | 1,070 |
| | 63 | 5,274 | 612 | 591 | 1,203 |
| | 62 | 4,696 | 539 | 517 | 1,056 |
| | 61 | 4,443 | 439 | 430 | 869 |
| | 60 | 2,786 | 406 | 385 | 791 |
| | 1959 | 2,469 | 363 | 228 | 591 |

a In 1964 the three year exemption on income taxes derived from Calgary Power's Wabamum Coal Mining project begins, making taxes inconsistent between 1963 and 1964; and also 1966 and 1967. The exemption on income taxes was $900,000 in 1964; $1,000,000 in 1965 and $1,100,000 in 1966.

b Canadian Utilities claim maximum depreciation allowed for income tax purposes, which is a higher figure than is charged in the books of the company, and a corresponding reduction of taxes. In 1968 the company purchased a considerably large amount of fixed assets and therefore effected a larger tax reduction than in 1967. For this reason taxes in 1967 are higher than in 1968 while 1968 had more income.

Source: Companies Annual Reports.

### TABLE 6

### PRIVATE ELECTRIC POWER INVESTMENT AND INCOME, ALBERTA, 1959-1968.

| | Year | Shareholder Investment | Net Income | Income Taxes Charged Against Income | Operating Income Before Income Tax |
|---|---|---|---|---|---|
| | | $ 000 | $ 000 | $ 000 | $ 000 |
| TOTALS | 1968 | $ 136,544 | $ 14,555 | $ 8,189 | $ 22,744 |
| | 67 | 130,089 | 13,484 | 8,097 | 21,581 |
| | 66 | 119,163 | 13,028 | 6,932 | 19,960 |
| | 65 | 90,779 | 12,625 | 7,914 | 20,539 |
| | 64 | 84,832 | 12,221 | 7,670 | 19,891 |
| | 63 | 80,374 | 10,004 | 7,876 | 17,880 |
| | 62 | 75,592 | 11,293 | 8,347 | 19,640 |
| | 61 | 71,052 | 9,694 | 7,775 | 17,469 |
| | 60 | 60,206 | 8,746 | 7,074 | 15,820 |
| | 1959 | 55,842 | 7,676 | 6,189 | 13,865 |

Source: Summary of Table 2.

# TABLE 7

## Schedule of Computation of Comparative Common Share Earnings

| | 1959<br>$ 000 | 1960<br>$ 000 | 1961<br>$ 000 | 1962<br>$ 000 | 1963<br>$ 000 | 1964<br>$ 000 | 1965<br>$ 000 | 1966<br>$ 000 | 1967<br>$ 000 | 1968<br>$ 000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Calgary Power Ltd. | | | | | |
| 1. Total Investment - capital and surplus accounts December 31. | $40,090 | $43,701 | $48,045 | $51,536 | $54,784 | $58,364 | $62,314 | $89,885 | $94,429 | $98,834 |
| 2. Net Income for the year - after taxes. | 5,877 | 6,849 | 7,527 | 8,763 | 7,276 | 9,339 | 9,726 | 9,931 | 9,724 | 9,950 |
| 3. Percentage return on total shareholder investment. | 14.6% | 15.6% | 15.6% | 17.0% | 13.3% | 16.0% | 15.6% | 11.0% | 10.3% | 10.1% |
| 4. Allocation of return | | | | | | | | | | |
| - Required for preferred dividends | 1.3% | 1.2% | 1.1% | 1.0% | 1.0% | 0.9% | 0.9% | 0.6% | 1.5% | 1.4% |
| - Remaining for common Shareholders | 13.3% | 14.4% | 14.5% | 16.0% | 12.3% | 15.1% | 14.7% | 10.4% | 8.8% | 8.7% |
| 5. Number of Common Shares Outstanding | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 | 5250,000 |
| 6. Earnings per common shares after payments to preferred shareholders. | $ 1.01 | $ 1.20 | $ 1.33 | $ 1.52 | $ 1.33 | $ 1.50 | $ 1.56 | $ 1.58 | $ 1.59 | $ 1.64 |
| 7. Dividends per common shares | .40 | .40 | .40 | .55 | .60 | .60 | .65 | .70 | .72½ | .80 |
| 8/ Earnings per original common shares after payment to preferred shareholders | 15.15 | 18.00 | 19.95 | 22.80 | 19.95 | 22.50 | 23.40 | 23.70 | 23.85 | 24.60 |
| 9. Dividends per original common shares | 6.00 | 6.00 | 6.00 | 8.25 | 9.00 | 9.00 | 9.75 | 10.50 | 10.87 | 12.00 |

Note: 1. In 1966 the company began to include in income, interest charged to construction. The net income figures have been adjusted to show the change in income for comparison purposes. However, the Total Investment figure is adjusted only from 1966 on. This accounts for the decreased percentage return on total shareholders investment and why the earnings per share figure is still comparable.

2. Income tax expense includes taxes deferred until future years which total $21,228,997.00 as at December 31, 1968.

3. In 1953 and 1959 the company declared stock dividends which resulted in a stock split of 15 for 1 by 1959.

## TABLE 8

## Schedule of Computation of Comparative Common Share Earnings

| | 1959<br>$ 000 | 1960<br>$ 000 | 1961<br>$ 000 | 1962<br>$ 000 | 1963<br>$ 000 | 1964<br>$ 000 | 1965<br>$ 000 | 1966<br>$ 000 | 1967<br>$ 000 | 1968<br>$ 000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Canadian Utilities Ltd. | | | | |
| 1. **Total Investment - capital and surplus** accounts - December 31 | $ 13,283 | $ 13,719 | $ 18,564 | $ 19,360 | $ 20,316 | $ 21,187 | $ 22,214 | $ 22,889 | $ 28,922 | $ 30,681 |
| 2. Net income for the year, after taxes. | 1,436 | 1,491 | 1,728 | 1,991 | 2,116 | 2,241 | 2,254 | 2,450 | 2,965 | 3,830 |
| 3. Percentage return on total shareholders investment | 10.8% | 10.9% | 9.3% | 10.3% | 10.4% | 10.5% | 10.2% | 10.7% | 10.8% | 12.5% |
| 4. Allocation of return | | | | | | | | | | |
| - Required for preferred dividends | 2.0% | 1.9% | 1.4% | 1.4% | 1.3% | 1.2% | 1.2% | 1.2% | 1.6% | 1.8% |
| - Remaining for common shareholders | 8.8% | 9.0% | 7.9% | 8.9% | 9.1% | 9.3% | 9.0% | 9.5% | 9.2% | 10.7% |
| 5. Number of Common Shares Outstanding | 633,332 | 633,332 | 834,998 | 839,918 | 848,238 | 855,238 | 877,560 | 878,280 | 886,686 | 886,686 |
| 6. Earnings per common shares | 1.85 | 1.94 | 1.75 | 2.06 | 2.18 | 2.31 | 2.27 | 2.49 | 2.82 | 3.68 |
| 7. Dividends per common shares | 1.10 | 1.25 | 1.25 | 1.25 | 1.30 | 1.50 | 1.60 | 1.70 | 1.70 | 1.70 |

Note: 1. In computing its taxable income, Canadian Utilities have been calculating depreciation at a rate greater than is shown in the books of the company. This has the effect of postponing the payment of taxes to future years. The total amount postponed in this manner is as at December 31, 1968, is approximately $ 5,529,850.00.

# TABLE 9

Comparative Schedules of Source and Application of Funds of Calgary Power Ltd., Canadian Utilities Ltd., and Northland Utilities.

| | Calgary Power Ltd. | | | | | Canadian Utilities Ltd. | | | Northland Utilities Ltd. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1968 | 1967 | 1966 | 1965 | 1964 | 1968 | 1967 | 1966 | 1968 | 1967 | 1966 |
| **Source of Funds** | | | | | | | | | | | |
| From Operations | | | | | | | | | | | |
| Net Income | $ 9,950 | $ 9,724 | $ 9,931 | $ 8,898 | $ 8,165 | $3,830 | $2,965 | $2,451 | $ 775 | $ 827 | $ 648 |
| Add items not involving cash | | | | | | | | | | | |
| Depreciation | 8,500 | 7,400 | 6,900 | 6,400 | 5,800 | -- | -- | -- | -- | -- | -- |
| and other (deferred taxes) | 2,670 | 2,440 | 449 | 2,506 | 1,992 | 2,243 | 2,068 | 1,812 | 707 | 630 | 563 |
| | 21,120 | 19,564 | 17,280 | 17,804 | 15,957 | 6,073 | 5,033 | 4,263 | 1,482 | 1,457 | 1,211 |
| Proceeds from issue of First Mortgage Bonds | 12,893 | 11.880 | -- | 8,910 | 6,934 | -- | 8,000 | -- | -- | -- | -- |
| Increase in Notes Payable | 450 | 1,100 | 750 | 600 | 1,150 | -- | -- | -- | 5,000 | -- | -- |
| Proceeds from issue of Preferred Shares | -- | -- | 14,550 | -- | -- | -- | 5,000 | -- | -- | -- | -- |
| Proceeds from issue of Sinking Fund Debentures | -- | -- | -- | -- | -- | 15,000 | -- | -- | -- | -- | -- |
| Net reduction in Special Refundable tax due beyond one year | -- | -- | -- | -- | -- | 69 | 26 | -- | 2 | 1 | -- |
| Proceeds from disposal of fixed assets | -- | -- | 630 | -- | -- | 554 | 408 | 409 | 217 | 274 | 171 |
| Contributions for extensions (Net) | -- | -- | -- | -- | -- | 364 | 141 | 265 | 205 | 111 | 65 |
| Increase in non-current consumer deposits | -- | -- | -- | -- | -- | -- | -- | -- | 20 | 15 | 24 |
| Other | 567 | 482 | 2,619 | 381 | 279 | 31 | 41 | 20 | 7 | 6 | 4 |
| Total Funds Provided | 35,030 | 33,026 | 35,829 | 27,695 | 24,320 | 22,091 | 18,649 | 4,957 | 6,933 | 1,864 | 1,475 |
| **Application of Funds** | | | | | | | | | | | |
| Capital expenditure | 30,669 | 29,188 | 28,902 | 24,011 | 19,996 | 21,358 | 13,500 | 8,519 | 5,616 | 4,545 | 2,771 |
| Payment of dividends | 5,545 | 5,180 | 4,210 | 3,947 | 3,685 | 2,071 | 1,960 | 1,756 | 484 | 484 | 483 |
| Bonds purchased re sinking fund | 885 | 852 | 935 | 796 | 731 | -- | -- | -- | -- | -- | -- |
| Special refundable tax | -- | -- | 531 | -- | -- | -- | -- | 132 | 2 | -- | 33 |
| Post Service Contributions re:Pension | -- | -- | -- | 831 | -- | -- | -- | -- | -- | -- | -- |
| Reduction of Long Term Debt | -- | -- | -- | -- | -- | 236 | 253 | 271 | 198 | 183 | 184 |
| Expenses related to issuance of debentures, shares and bonds | -- | -- | -- | -- | -- | 723 | 506 | -- | -- | -- | -- |
| Other | -- | -- | -- | 2,300 | -- | 54 | 41 | 57 | 16 | 60 | 90 |
| Total Funds Applied | 37,099 | 35,220 | 34,578 | 31,885 | 24,412 | 24,442 | 16,260 | 10,735 | 6,316 | 5,272 | 3,561 |
| Increase (Decrease) in Working Capital Deficiency | $ 2,069 | $ 2,194 | $(1,251) | $ 4,190 | $ 92 | $ 2,351 | $(2,389) | $ 5,778 | $ (617) | $ 3,408 | $ 2,086 |

# EXHIBIT B

Takeover of the British Columbia Electric Company is written up as follows in the May 4, 1963 issue of the Financial Post:

> "Action was started in the British Columbia Supreme Court on May 1/62; presentation of evidence was completed Nov. 14, and argument by counsel was completed Feb. 25/63, when the judge reserved his decision.
>
> Litigation arises out of the takeover, Aug. 1/61, of B.C. Electric, its chief operating subsidiary. Original takeover terms were for about $111 million ($23.50 per B.C. Power common share), for B.C. Electric property, plus an additional amount to bring this to $39 per share if remaining assets were turned over as well.
>
> When company launched a legal suit instead, the B.C. government amended the takeover legislation to block court actions and paid another $60.8 million to B.C. Power, withdrawing its offer to take over other property (remaining assets should realize at least $10 million).
>
> Result was a total payment of about $36 a share of $171.8 million. No further distribution has been made. In the latest annual report, Chairman A. Bruce Robertson said company's principal endeavor is to obtain for shareholders fair treatment for expropriation of the common shares in its former operating subsidiary. An outside appraisal of company's assets at Aug. 1/61 put a minimum value on them of $236.3 million.
>
> On application by B.C. Power, a judge of the Supreme Court of B.C. appointed a receiver to administer the assets of B.C. Electric until the issues in the action were resolved. The receiving order was set aside by the B.C. Court of Appeal, on appeal by B.C. Electric, but was later restored on an appeal to the Supreme Court of Canada.
>
> B.C. Electric has been merged with B.C. Power Commission into a single entity known as B.C. Hydro and Power Authority.
>
> Under the takeover terms, the outstanding preferred shares of B.C. Electric were replaced by government-guaranteed bonds of equal par value and bearing the same rate of interest. Holders had option of taking either perpetual or 25 year bonds."

One year later following more court actions the government had to make another payment to B.C. Electric Company. The Jan. 18/64 Financial Post reported that:

> "A B.C. Power court action to take back its subsidiary was suspended, however, to allow negotiations with the government. The result was a settlement on a final price of $197 million, for which the company gave up its rights in the B.C. Electric common stock".

More money was still wanted for example the Peace River Power Development Corporation which received $8 million in 1969 as compensation for its outlays on the Peace River project. They still wanted an additional $4.5 million according to the Feb. 8/64 issue of the Financial Post.

Later the Feb. 6/65 Financial Post reported:

> "A preliminary distribution of $18.70 was made Dec. /61 five months after the B.C. government expropriated B.C. Electric Company which was B.C. Powers chief asset. A second distribution

Exhibit B Continued...

> was made Jan./64 shortly after B.C. power went into liquidation. The high for the stock in 1961 was $39 1/8. It has not traded as high as $44 since 1957".

Then about one month later the March 27/65 Financial Post reported:

> "An additional 50 cents was mailed out to shareholders in March making a total of $44.20 a share they have received since the B.C. government effectively put the company out of business four years ago by expropriating its major assets, British Columbia Electric Company".
>
> "Meanwhile, former preferred shareholders of B.C. Electric Company have won a protest against the B.C. government - guaranteed perpetual debentures of equal par value bearing the same rate of interest.
>
> For one year following the issue, Aug. 1/62, the perpetual bonds were exchangeable for 25-year bonds maturing at par on Aug. 1/86 but otherwise bearing the same terms and conditions.
>
> Shareholders protested the cut-off date for two years to no avail. One even took his case to court and received an out-of-court settlement. But recently, F.P. understands investment dealers have received instructions to the effect that the perpetuals can once again be exchanged for the 25 year bonds at the bandholder's request".

This roughly concluded the transfer from private to public ownership in British Columbia.

EXHIBIT C

This is Schedule "A" to Decision No. 29547 of the Public Utilities Board, dated the 16th day of October, 1969, in the matter of an application by Canadian Utilities, Limited for an increase in rates charged for electricity supplied to its customers.

## SCHEDULE OF RATE BASE AND RATE OF RETURN

| | 1968 | 1969 | 1970 |
|---|---|---|---|
| Plant Balance Ex. 3 | $ 93,697,000 | $108,700,000 | $125,300,000 |
| Deduct: | | | |
| Intangible assets | 428,000 | 428,000 | 428,000 |
| Work in progress | 20,612,000 | 2,600,000 | 11,500,000 |
| Acquisition adjustment | 79,000 | 79,000 | 79,000 |
| | 72,578,000 | 105,593,000 | 113,293,000 |
| Less: | | | |
| Depreciation reserve | 13,996,000 | 16,260,000 | 19,512,000 |
| | 58,582,000 | 89,333,000 | 93,781,000 |
| Deduct: | | | |
| Contribution for extensions | 1,379,000 | 1,700,000 | 1,900,000 |
| | $ 57,203,000 | 87,633,000 | 91,881,000 |
| Add prior year balance | | 57,203,000 | 87,633,000 |
| | | $144,836,000 | $179,514,000 |
| 1/2 thereof | | 72,418,000 | 89,757,000 |
| Working capital allowance | | 2,000,000 | 2,000,000 |
| Unamortized hearing costs | | 200,000 | 150,000 |
| RATE BASE | | $74,618,000 | $91,907,000 |
| 8 1/2% Rate of Return | | $ 6,342,253 | $ 7,812,095 |

EXHIBIT D

This is Schedule "B" to Decision No. 29547 of the Public Utilities Board, dated the 16th day of October, 1969, in the matter of an application by Canadian Utilities, Limited for an increase in rates charged for electricity supplied to its customers.

## SCHEDULE OF ESTIMATED REVENUE AND EXPENDITURES

| | 1969 | 1970 |
|---|---|---|
| Revenue at present rates | $15,290,000 | $17,850,000 |
| Deduct expenses: | | |
| Payroll | 2,530,000 | 2,780,000 |
| Fuel and purchased power | 1,390,000 | 1,390,000 |
| Materials and services | 1,270,000 | 1,330,000 |
| Administrative and general | 1,020,000 | 1,040,000 |
| Municipal taxes | 590,000 | 770,000 |
| Amortization of estimated hearing costs | --- | 50,000 |
| | 6,800,000 | 7,360,000 |
| Depreciation | 2,115,000 | 3,105,000 |
| | 8,915,000 | 10,465,000 |
| Estimated income before tax | 6,375,000 | 7,385,000 |
| Less income tax | 525,000 | 1,090,000 |
| Utility income at present rates | 5,850,000 | 6,295,000 |
| Allowed rate of return | 6,342,253 | 7,812,095 |
| Deficiency | $ 492,253 | $ 1,517,095 |
| Estimated additional revenue to meet deficiency | $ 984,506 | $ 3,034,190 |
| Less income tax | 492,253 | 1,517,095 |
| | $ 492,253 | $ 1,517,095 |

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